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COMPETITIVE COMMUNICATIONS GROUP

Ex parte Notice

August 21, 1997

William Caton
Secretary
Federal Communications Commission
1919 M Street NW
Room 222
Washington, D C 20554

Dear Mr. Caton,

RE: CC Docket No. 96-262 ~~262~~, Access Charge Reform

On August 19, 1997, Michael Czerwinski, President of East Ascension Telephone Company (EATEL), and Michael Fox, a principal with Competitive Communications Group (CCG), met with Lynne Milne and Claudia Fox, of the FCC staff. The purpose of the meeting was to address access charge reform from the perspective of rural, non-price-cap local exchange carriers. Material presented and discussed by EATEL and CCG during the meeting are attached.

Respectfully submitted,

Michael Fox

cc: Michael Czerwinski
Lynne Milne
Claudia Fox

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Rural Pricing & Access Reform

August 19, 1997

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Introduction

On May 16, 1997 the Federal Communications Commission ("Commission") released its First Report and Order pertaining to access charge reform.[1] While this order was primarily directed toward local exchange carriers ("LECs") that file under the Commission's price cap rules, East Ascension Telephone Company ("EATEL") and Competitive Communications Group ("CCG") are concerned that if the same rules are applied to smaller, rural LECs, then both the LECs and their customers could be irreparably harmed. As the Commission navigates through these uncharted waters it is important that it not lose sight on some fundamental principles that are critical to rural telecommunications.

Rural LECs have significantly higher common line costs on a relative basis than do the price cap LECs. It simply costs more to provide service per line in rural areas than it does in urban and suburban communities. The lack of population density and challenging rural terrain are key factors. Also, most rural LECs do not have the same mix of customers as do the price cap LECs. While the price cap LECs serve rural areas of the United States they also provide telephone service to most of the densely populated cities

[1] Access Charge Reform, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, *First Report and Order*, FCC 97-158, released May 16, 1997, and published in the Federal Register on June 11, 1997 (62 Fed. Reg. 31868) ("Access Reform Docket").

and suburban communities in the country. This mix of customers allows the price cap LECs to internally average down their costs per customer. Rural LECs do not have this same opportunity, which is precisely the reason the federal Universal Service Fund ("USF") was established.

The Access Reform Order established rules designed to reduce the Carrier Common Line Charge ("CCLC") of the price cap LECs to zero over time. This is to be accomplished by increasing end-user Subscriber Line Charges ("SLCs") on multi-line business and non-primary (second and additional) residential lines and by introducing a new Primary Interexchange Carrier Charge ("PICC") rate element. However, due to the higher proportion of common line costs for small, rural LECs, the Commission's model will not accomplish the same results for non-price cap LECs as it will for the price cap LECs. Even if it is assumed that the increased SLCs and PICCs are appropriate for rural LECs[2], these changes will not accomplish the results that the Commission has intended; namely the elimination of the CCLC without significant pricing disparity, which will have a variety of negative consequences.

Fundamental Principles

As the Commission moves forward with access reform for non-price cap LECs, it is important that it not lose sight of some basic, fundamental principles. This paper does not attempt to identify or expound upon all of the principles necessary to ensuring quality rural telephone service. Rather, we will simply address three key principles that are important for rural consumers to continue have access to high quality telephone service in parity with their urban neighbors, as required by the Telecommunications Act of 1996.[3]

[2] Note: EATEL and CCG have serious reservations about whether or not the increased SLCs and PICCs are appropriate for rural LECs. These issues will be addressed later in the paper.

[3] Telecommunications Act of 1996, Pub. L. No 104-104, 110 Stat. 56 (codified at 47 U.S.C. §§ 151 *et. seq.*) (1996Act).

These three principles are also fundamental to access charge reform being handled properly for non-price cap LECs.

The 1996 Act mandates that geographic toll rate averaging must be maintained. Geographic toll rate averaging is critical to rural consumers because a significantly higher proportion of their telephone calling is long distance in nature.

Another fundamental principle, as required by the 1996 Act, is that urban and rural rate parity must be maintained. This pertains to local, toll and access rates. It is important for the Commission to keep urban and rural rate parity in mind as it contemplates access reform for non-price cap LECs.

Finally, it is of paramount importance that access charge reform for non-price cap LECs and universal service be addressed in concert. Rural LECs do not have the same mix of customers as do the price cap LECs. The disparity between the access rates charged by rural LECs and those charged by price cap LECs, *in their rural areas,* is evidence of the implicit internal universal service subsidies in price cap LEC access charges. Since the 1996 Act requires the Commission to evolve all implicit subsidies to explicit mechanisms, it is necessary for access charge reform and universal service to be addressed together.

Geographic Toll Rate Averaging

Ultimately the way to ensure that geographic toll rate averaging is maintained over time in a competitive environment is to present the IXCs with geographically averaged input prices (e.g., access charges). This can be accomplished by addressing access charge reform for non-price cap LECs and universal service together. Price cap LECs average over different urban / rural and business / residence customer mixes. In order to ensure the continuation of geographic toll rate averaging in light of these different customer mixes, the implicit internal universal service subsidies embedded in price cap LEC access rates must be removed and handled directly through an explicit universal service mechanism. If the implicit universal subsidies are removed from access charges, then the rate disparity between price cap and non-price cap LEC access charges can be significantly reduced, if not eliminated. The implicit universal service subsidy would have to be recovered through increased USF payments to compensate the rural LECs for their inherently higher common line costs.

Urban / Rural Rate Parity

Disparate urban and rural access rates will lead to selective marketing efforts by the IXCs, ultimately forcing rural LEC consumers to pay more for their toll calling than do their urban neighbors — clearly in conflict with the mandates of the 1996 Act. Furthermore, it can be predicted that the IXCs will increase their efforts to encourage the Commission to forbear from enforcing geographic toll rate averaging if access charge disparity for both flat rate (e.g., PICCs) and usage based charges is not addressed. Indeed, some IXCs are already making such pitches. In its Petition for Reconsideration of the Commission's *First Report and Order*, Worldcom, Inc. asked the Commission to forbear from enforcing the geographic averaging requirements for per line charges paid by the IXCs.[4] Access charge disparity will also result in continued uneconomic bypass of high volume customers, thereby denying rural LECs important revenue sources that are needed to continue to provide their rural consumers with access to affordable, high quality telephone service.

Without rate parity, the flat rate PICCs for rural LECs will be higher (perhaps significantly so) than for the price cap LECs. This could result in IXCs opting out of rural LEC markets, harming consumer choice. Further, while the PICCs are to be paid for by interexchange carriers rather than end users, EATEL and CCG are concerned that the PICCs place the predominant burden of common line recovery on the originating side

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[4] See Petition for Reconsideration of the First Report and Order, by Worldcom, Inc. in the Access Reform Docket, pp. 22-23.

which could result in gaming and selective marketing efforts by the IXCs. Even if the IXCs elect to continue serving the rural areas, higher PICCs for rural LECs will ultimately be directly or indirectly passed on to the rural consumers in the form of higher rates.

Finally, long distance resale operations based in rural areas will be greatly harmed, particularly if their marketing focus has been to attract a broad base of both residential and business customers. This trend could ultimately result in a number of these firms ceasing operations, severely limiting customer choice and equal access in areas served by rural LECs

SLC Increases

EATEL and CCG have serious reservations about the Commission increasing SLCs for multi-line business and non-primary residential lines. SLC increases on non-primary residential and multi-line business will be harmful to rural economic development. Due to the higher proportion of common line costs for rural LECs, the SLC increases for rural LECs are likely to be much more significant than for the price cap LECs. Furthermore, higher SLCs on non-primary lines will drive customers to purchase additional lines from competitive LECs simply as a result of a regulatory decision by the Commission. At the very least, the mandates of the 1996 Act concerning urban and rural rate parity dictate that rural LEC SLCs must be capped at levels no higher than that of the price cap LECs in their geographic areas.

Conclusion

Universal service and access reform for non-price cap LECs are inextricably linked. It is imperative that the Commission address the access charge disparity problem in tandem with universal service. To do otherwise will put telephone service, as we know it today, in jeopardy. If the Commission elects to impose a similar access charge reform structure on the non-price cap LECs, then it is critical that the PICCs and SLCs for non-price cap LECs be capped at price cap LEC levels.

Some parties have suggested that one way to address the access charge disparity problem with respect to the CCLC is to allow the PICCs for non-price cap LECs to rise unabated as necessary to drive the CCLC to zero. EATEL and CCG believe that this would have serious negative consequences. Eliminating the CCLC was a key Commission objective in implementing the PICCs for the price cap LECs. However, as explained above, non-price cap LEC PICCs capped at price cap LEC levels will not lead to the elimination of their CCLCs. If, in order to eliminate the CCLC for non-price cap LECs, the Commission were to adopt the suggestions of these parties and allow the PICCs for non-price cap LECs to rise unabated, the result would be higher non-price cap LEC PICCs than for price cap LECs, some significantly higher. This result would not only be contrary to the 1996 Act, but would also lead to very undesirable results in the rural LEC toll markets. It could also effectively lead to the elimination of consumer long distance choice and equal access in areas served by rural LECs. The only solution is to cap the PICCs at the price cap LEC levels and address the access charge disparity problem in tandem with universal service.

Rural Pricing & Access Reform

East Ascension Telephone Company

Michael H. Czerwinski, President

Fundamental Principles

- Geographical Toll Rate Averaging must be maintained
- Urban and rural rate parity must be maintained for both local and access rates
- Access reform and universal service issues must be addressed in concert

Geographic Toll Rate Averaging

- LECs must present geographically averaged prices to competitive IXCs
- Averaging should be over customer mix, not by company
- Averaging should apply to both fixed rates and usage rates

Urban / Rural Rate Parity - Access Prices

- Disparate urban / rural prices lead to selective marketing effort
- Disparate urban / rural prices create pressure for geographic toll de-averaging
- Uneconomic bypass of high volume customers

Urban and Rural Rate Parity - PICCs

- Without parity, PICCs for rural companies will be higher (perhaps significantly) than for urban companies
- IXCs will be incented to opt out of rural markets, harming customer choice
- Rural based IXC's will be harmed
- Geographic toll rate averaging will be threatened

Urban and Rural Rate Parity-Subscriber Line Charges

- Non-price cap LECs costs typically are much higher than those of price cap LECs
  - SLC increases will be more significant
- Must maintain parity with price cap LECs
- SLC increases on non-primary residential and multi-line business will be harmful to rural economic development

Urban and Rural Rate Parity-Subscriber Line Charges(con't)

- Increases on non-primary residential and multi-line business lines will put rural LECs at a competitive disadvantage
  - Rural LEC SLCs should be at parity with price cap LECs in their geographic area
- Customers will be incented to acquire additional lines from competitive LECs

Urban and Rural Rate Parity - Access Reform

- The access reform model for price cap LECs doesn't work for non-price cap LECs
  - Non-price cap LECs have higher common line revenue requirements
  - Different customer mix
- CCLC will not be eliminated through the price cap model

Urban and Rural Rate Parity - Access Reform (con't)

- Increasing PICCs to eliminate CCLC not a viable option for non-price cap LECs
  - Would kill consumer IXC choice
  - Would result in dial around gaming by IXCs
- Rural equal access would be threatened
- Geographic toll rate averaging would be threatened

Access Reform & Universal Service Linkage

- PICCs and SLCs for non-price cap LECs should be capped at price cap LEC levels
  - Any remaining revenue requirement should be recovered from the Universal Service Fund
- Access rate disparity represents implicit universal service supports
  - Price cap LEC "rural" access rates are supported by their urban markets